

**Assisted Living Concepts, Inc.**

**AUDIT COMMITTEE CHARTER**

*Adopted as of October 31, 2006, Amended February 27, 2007*

**PURPOSE**

The purposes of the Audit Committee (the "Committee") of the Board of Directors (the "Board") of Assisted Living Concepts, Inc. (the "Company"), shall be to provide assistance to the Board in fulfilling its legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting, internal control and legal compliance functions of the Company and its subsidiaries, including, without limitation, (a) assisting the Board's oversight of (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the Company's independent auditors' qualifications and independence and (iv) the performance of the Company's independent auditors and the Company's internal audit function and (b) preparing the report required to be prepared by the Committee pursuant to the rules of the Securities and Exchange Commission (the "SEC") for inclusion in the Company's annual proxy statement.

**COMPOSITION**

1. The Committee shall be appointed annually by the Board and shall consist of not fewer than three (3) nor more than six (6) directors.
2. The Committee shall consist of at least one member who qualifies as a financial expert, as interpreted by the Board in its business judgment from time to time.
3. The Chairperson of the Committee and the other members of the Committee shall:
  - a) be independent and no member shall have a material business relationship with the Company unless the Board determines in its business judgment, from time to time, that the relationship does not interfere with the exercise of that member's independent judgment and independence from management and the Company;
  - b) be financially literate as this qualification is interpreted by the Board in its business judgment from time to time or must become financially literate within a reasonable period of time after appointment to the Committee;
  - c) not be an officer or employee of the Company, nor a compensated officer or employee of a subsidiary of the Company, nor have been such within the three year period next preceding the appointment of the director to the Audit Committee; and
  - d) not receive, either directly or indirectly, any other compensation from the Company or any affiliate of the Company, other than in the member's capacity as a member of the Board and any Board committee.

4. The Board of Directors will exercise its business judgment to determine a director's eligibility to be a member of the Committee including a determination regarding the independence of a director.

#### **MEETINGS AND PROCEDURES**

5. The Committee shall meet as often as it deems appropriate to discharge its responsibilities and in any event at least four (4) times per year. The meetings will be scheduled so as to permit timely review and consideration of the interim and annual financial statements as well as allowing sufficient time to consider and review the audit plan with management and the external auditors. Additional meetings may be held as deemed necessary by the Chairperson of the Audit Committee or as requested by any member of the Audit Committee or the external auditors.
6. The Committee, annually, shall review and reassess the adequacy of the Audit Committee Charter and report thereon to the Board of Directors of the Company.
7. The minutes of all meetings of the Committee shall be provided to the Board of Directors of the Company. Oral reports by the Chairperson of the Committee on recent matters not yet minuted shall be provided to the Board at the next meeting of the Board following the meeting of the Committee.
8. The Committee, as it deems necessary in the exercise of its business judgment, may conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee is authorized to retain independent professionals to assist in the conduct of any investigation.
9. The Committee, annually, will prepare the report required by the rules of the SEC to be included in the Company's annual proxy statement relating to its annual stockholder's meeting. That report will include a statement whether the Committee has:
  - a) reviewed and discussed the audited financial statements with management;
  - b) reviewed and discussed the audited financial statements with the external auditors;
  - c) received from the external auditors a report of all of its relationships with the Company and has discussed with the external auditors the external auditors' independence; and
  - d) recommended that the audited financial statements of the Company be included in the Company's Annual Report distributed to the stockholders and regulatory authorities as required by law or regulation.

## **DUTIES AND RESPONSIBILITIES**

10. The scope of the responsibilities of the Committee include:

- a) reviewing and evaluating the performance of the external auditors annually or more frequently as required (the external auditor shall report directly to the Committee, the Committee has sole authority to appoint and replace the external auditors, and the Committee shall be directly responsible for the compensation and oversight of the work of the external auditor (including resolution of disagreements between management and the external auditor regarding financial reporting));
- b) reviewing the audit plan with the external auditor and with management;
- c) reviewing with management and with the external auditor any proposed changes in major accounting policies, the presentation and impact of significant risks and uncertainties, and key estimates and judgments of management that may be material to financial reporting and any significant financial reporting issues occurring or discussed during the fiscal period and the method of resolution;
- d) reviewing any problems experienced by the external auditor in performing the audit, including any restrictions imposed by management or any significant accounting issues with which there was a disagreement with management;
- e) reviewing audited annual financial statements, in conjunction with the report of the external auditor, and obtaining an explanation from management of all significant variances between comparative reporting periods;
- f) reviewing all post-audit or management letters containing the recommendations of the external auditor and management's response and subsequent follow-up to any identified weaknesses or significant comments;
- g) reviewing interim unaudited financial statements before release to the public and, where authorized by the Board, approving the interim unaudited financial statements;
- h) reviewing and recommending approval to the Board, where appropriate, all public disclosure documents (including news releases) containing audited or unaudited financial information before release to the public, including any prospectus, quarterly and annual financial statements, management's discussion and analysis, and annual report;
- i) reviewing the evaluation of internal controls by the external auditor, together with management's response;

- j) reviewing with management all issues of operational risk management, including insurance coverages maintained by the Company, legal exposure (including legal claims or other contingencies as well as tax assessments that could have a material effect upon the financial position or operating results of the Company), management compliance with regulatory requirements, conflicts of interest, and other related matters in the exercise of its business judgment that it considers as having or tending to have a material impact on the financial position of the Company;
- k) reviewing with management any allegations of fraud or other impropriety, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls;
- l) reviewing the appointment of the chief financial officer and of any key financial executive involved in the financial reporting process or any changes in any of these positions;
- m) reviewing and reporting to the Board on the appointment, replacement, reassignment or dismissal of the internal auditor;
- n) reviewing the terms of reference of the internal auditor;
- o) reviewing the annual plan of the internal auditor;
- p) reviewing the reports of the internal auditor with respect to control and financial risk and any other matters appropriate to the duties of the Committee. The Committee shall review the adequacy and appropriateness of management's response, including implementation thereof;
- q) reviewing and approving the reporting relationship of the internal auditor to ensure that an appropriate segregation of duties is maintained and that the internal auditor has an obligation to report directly to the Committee on matters affecting the duties of the Committee without regard to the internal auditor's other reporting relationships; and
- r) obtaining and reviewing a report from the external auditor at least annually regarding (i) the external auditor's internal quality-control procedures, (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, (iii) any steps taken to deal with any such issues, and (iv) all relationships between the external auditor and the Company and presenting the Committee's conclusions with respect to the external auditor to the Board.

11. The Committee shall take all steps which in its business judgment are necessary to assure the objectivity and independence of the external auditor, including:
  - a) reviewing and approving the terms of the external auditor's engagement, the appropriateness and reasonableness of the proposed audit fees, and any unpaid fees;
  - b) when there is to be a change of auditor, reviewing all issues related to the change, including the information to be included in the notice of change of auditor and the planned steps for an orderly transition;
  - c) reviewing all reportable events, including disagreements, unresolved issues, and consultations on a routine basis;
  - d) establishing and maintaining procedures for preapproval by the Committee of all proposed non-audit services to be provided by the external auditor's firm or its affiliates, together with estimated fees, and considering the impact of these on the independence of the external auditor;
  - e) obtaining from the external auditor on a periodic basis a formal written statement delineating all relationships between the external auditor and the Company, actively engaging in a dialogue with the external auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the external auditor, and recommending that the Board take appropriate action in response to the external auditor's report to satisfy itself of the external auditor's independence; and
  - f) recommending to the Compensation/Nomination/Governance Committee policies for ALC's hiring of employees or former employees of the external auditor.
12. The Committee should review and ensure that procedures are in place for the:
  - a) receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
  - b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

#### EVALUATION

13. The Committee shall, on an annual basis, evaluate its performance. In conducting this review, the Committee shall evaluate whether this Charter appropriately addresses the matters that are or should be within its scope and shall recommend such changes to the Charter as it deems necessary or appropriate. The Committee shall address all matters that the Committee considers relevant to its performance,

including at least the following: the adequacy, appropriateness and quality of the information and recommendations presented by the Committee to the Board, the manner in which such information and recommendations were discussed or debated, and the adequacy of the number and length of meetings of the Committee for completing its work in a thorough and thoughtful manner.

14. The Committee shall deliver to the Board a report, which may be oral, setting forth the results of its evaluation, including any recommended amendments to this Charter and any recommended changes to the Company's or the Board's policies or procedures.

#### **INVESTIGATIONS AND STUDIES; OUTSIDE ADVISERS**

The Committee may conduct or authorize investigations into or studies of matters within the Committee's scope of responsibilities and may retain, at the Company's expense, such independent counsel or other consultants or advisers as it deems necessary. The Committee shall have the sole authority to retain or terminate any consultant to assist the Committee in carrying out its responsibilities, including sole authority to approve the consultant's fees and other retention terms, with such fees to be borne by the Company.